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IN THE
SUPREME COURT OF THE
UNITED STATES
OCTOBER TERM, 1946

No. 982

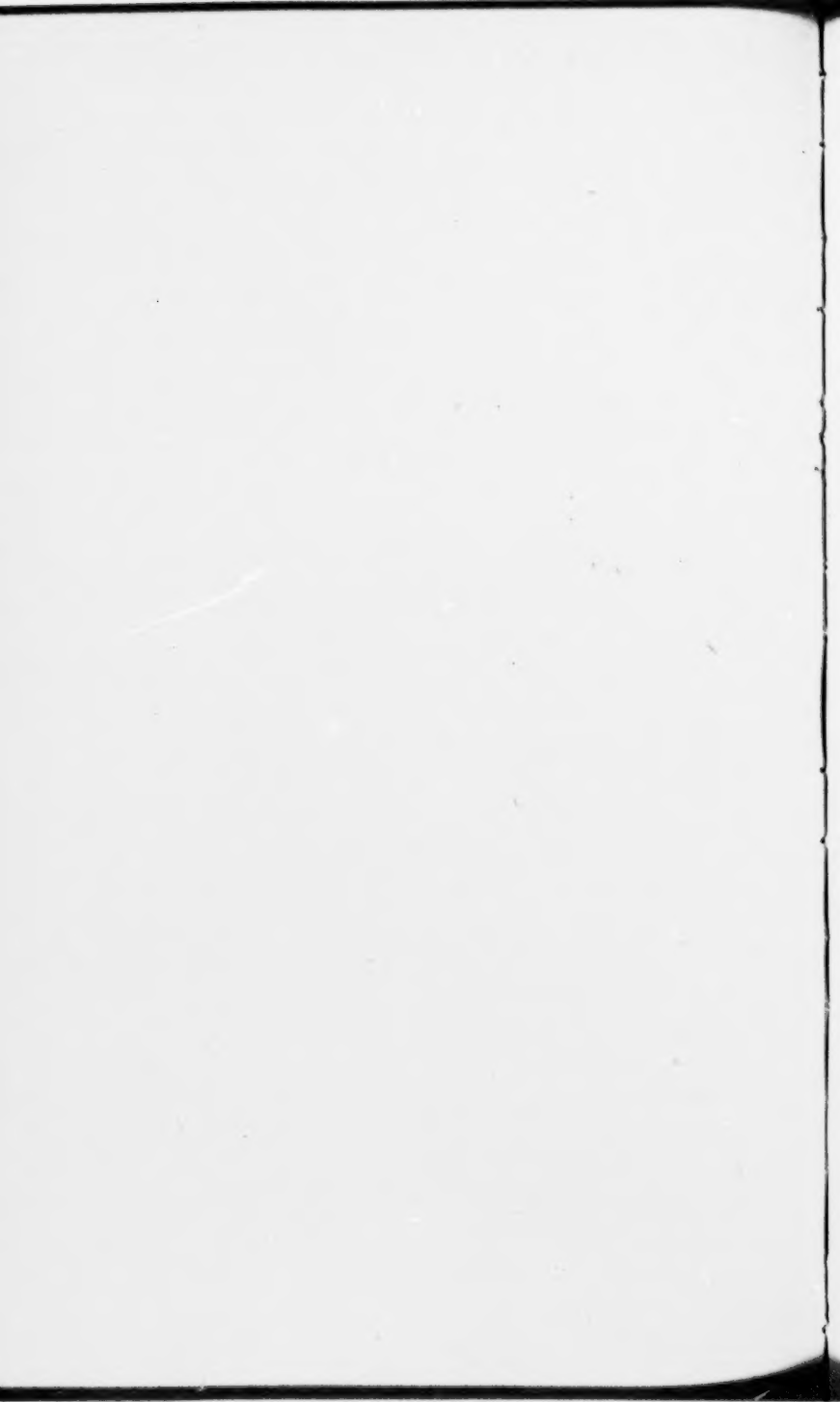
THE PURE OIL COMPANY, *Petitioner,*
v.
PETROLITE CORPORATION, LTD., *Respondent*

PETITION FOR WRIT OF CERTIORARI
To the United States Circuit Court of Appeals
For the Fifth Circuit

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The Pure Oil Company prays that a writ of certiorari be issued to review a judgment of the Circuit Court of Appeals for the Fifth Circuit affirming the judgment of the District Court which sustained a motion dismissing Petitioner's complaint for failure to state a claim upon which relief could be granted.

Opinions Below

The opinions of the District Court (R. 19, 48) are not reported. The opinion of the Circuit Court of Appeals (R. 55) is not yet reported.

Jurisdiction

The judgment of the Circuit Court of Appeals was entered on December 12, 1946 (R. 60). The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925 (U.S.C., Title 28, Sec. 347a).

Questions Presented

1. Whether owners of patents can enter into agreements for the sale of equipment or products and as a part of the consideration for such sales require payment of royalties under expired patents.

2. Whether the act of Respondent in refusing to execute a sales agreement pursuant to a written purchase option except one which would require Petitioner to pay royalties under expired patents, has the legal effect of relieving Petitioner from complying with any provision of the option requiring agreement upon terms of a sales agreement in addition to the valid terms specified in the option. Both the District Court and the Circuit Court of Appeals gave effect to this provision of the option and held that it was necessary for the parties to agree upon all of the terms of such agreement.

3. Whether the act of Respondent in attempting to retain control over certain equipment by the terms of the sales agreement for the purpose of compelling Petitioner to pay royalties under the expired patents listed in the 1930 license, has the legal effect of relieving Petitioner from agreeing with Respondent upon such agreement.

4. Whether Petitioner can have determined in a suit for a declaratory judgment that Respondent cannot maintain a suit to recover possession of certain equipment because

such suit would be in furtherance of its unlawful action which violates the Patent Laws of the United States. The Circuit Court of Appeals held that this question arising from the arbitrary and unreasonable action of Respondent could not be determined in a declaratory judgment action but must await the bringing of a suit by Respondent to recover possession of the property.

Statement

Petitioner filed this suit under the Federal Declaratory Judgment Act (U.S.C., Title 28, Sec. 400), and the District Court sustained a motion to dismiss the complaint for failure to state a claim upon which relief could be granted (R. 49). The Circuit Court of Appeals affirmed the judgment dismissing the complaint (R. 60).

In 1930 Petitioner obtained a license under various patents of Respondent, and on the same date it entered into an agreement with Respondent for the lease of certain equipment (R. 36, 42). These agreements, as extended, gave Petitioner the right to use various processes for dehydrating and desalting crude oil and to lease equipment for the use of such processes (R. 36, 42). The lease agreement contained a purchase option which provided that Petitioner should have the right to purchase the equipment and continue to operate same, subject to the terms of a sales and purchase agreement to be entered into, by paying the cost of new equipment less ten per cent (10%) per year depreciation (R. 45).

After paying royalties to Respondent for fourteen years, Petitioner elected in 1944 to purchase the equipment pursuant to the option and tendered the purchase price specified therein (R. 30). Respondent tendered a sales agreement to the equipment which obligated Petitioner to pay royalties on all processes and products disclosed by all of the patents

listed in the 1930 license agreement—68 out of 70 of such patents having expired at such time; and in the same agreement Respondent reserved an option to repurchase the equipment and exercised it at the time of tendering the agreement (R. 32-33). Respondent informed Petitioner that this was the only sales agreement which it would execute (R. 33). Petitioner refused to accept the sales agreement (R. 32) and brought this suit to determine its rights.

Petitioner alleged in its complaint that Respondent "has made demand upon plaintiff to return all of said equipment" and has "demanded immediate possession of all of the equipment" (R. 32). In its prayer Petitioner requested the Court to determine that it had the title to the equipment or had the right to obtain the title by paying the consideration specified in the option and in addition Petitioner prayed for other and further relief (R. 34).

Both the trial court and the Circuit Court of Appeals held that Petitioner could not obtain title to the equipment under the option until it had agreed with Respondent upon the sales and purchase agreement (R. 60), and in addition the Circuit Court of Appeals held that it was not concerned with the fact that the tendered sales agreement was arbitrary and unreasonable because this was not a suit by Respondent to recover the equipment wherein any estoppel created by its arbitrary action could be invoked (R. 60). In a petition for rehearing Petitioner pointed out that it was entitled to have determined in this declaratory judgment suit whether Respondent could recover possession of the equipment as demanded by it but the petition was denied (R. 61, 68).

Specification of Errors to be Urged

The Circuit Court of Appeals erred—

- (1) In holding that the right to purchase the equipment

was contingent upon Petitioner agreeing with Respondent upon the sales and purchase agreement, even though Respondent was only willing to execute an agreement which violated the patent laws of the United States.

(2) In holding that the Court was not concerned with the fact that the agreement tendered by Respondent was arbitrary, unreasonable and contrary to the spirit and intent of the lease agreement.

(3) In holding that the act of Respondent in refusing to execute a sales and purchase agreement except one which would violate the patent laws of the United States did not relieve Petitioner from complying with the provision of the option requiring agreement with Respondent upon a sales and purchase agreement.

(4) In holding that Petitioner did not have the title to the equipment and did not have the right to obtain the title by paying the consideration specified in the option.

(5) In holding that the question whether Respondent's unlawful and arbitrary action would prevent it from recovering the equipment could not be determined in a declaratory judgment action but must await a suit by Respondent to recover possession of the equipment.

Reasons for Granting the Writ

1. This case involves a question of manifest importance in the administration of the patent laws, and that is, whether owners of patents can enter into executory agreements or options for the sale of equipment or products and in carrying out such sales require the payment of royalties under expired patents. Further, what is the legal effect and consequence of such action in determining the rights of purchasers to the enforcement of the options? This Court has held that the

legal effect and consequence of an act which violates a Federal statute is a Federal question to be determined in accordance with Federal policy. *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173, 176 (1942).

Petitioner claims that when Respondent tendered a sales agreement pursuant to the purchase option obligating it to pay royalties under expired patents and reserving an option to repurchase the equipment for the purpose of compelling payment of royalties under the expired patents of the 1930 license agreement, and also advised Petitioner that this would be the only sales agreement which Respondent would execute, it relieved Petitioner from complying with any provision of the option requiring agreement with Respondent upon a sales and purchase agreement. The allegations of the complaint establish that Respondent refused to execute a valid and legal agreement (R. 32-33). It is a well established rule that when compliance with a provision or condition precedent of an executory agreement depends upon the coöperation of both parties and one party refuses to coöperate or renders compliance impossible, he thereby waives or relieves compliance with the provision or condition by the other party. WILLISTON ON CONTRACTS (Rev. Ed.), Volume 3, Sections 677, 698a, 698b; *Williams v. The Bank of the United States*, 2 Peters 96 (1829); *Crescent Mining Company v. The Wasatch Mining Company*, 151 U.S. 317, 322 (1894); cf. *R. H. Stearns Co. v. United States*, 291 U.S. 54, 61-62 (1934).

Likewise, it should be held that when a party to an executory agreement refuses to carry out a particular provision of the agreement except under conditions which would violate a Federal statute, he waives or relieves compliance with that provision by the other party, who becomes entitled to have the agreement enforced in accordance with its other terms. This is manifestly an important Federal question which should be settled by the Supreme Court.

Since the equipment to be sold here was identified, the grantor and grantee were known, and a valid consideration was specified in the option, Petitioner was entitled to have the option enforced in accordance with its other terms which were adequate to support the sale of the property.

2. The Circuit Court of Appeals held that it was necessary for Petitioner to agree with Respondent upon a sales and purchase agreement in order to acquire title to the equipment under the purchase option and that they were not concerned with the fact that the sales agreement tendered by Respondent was arbitrary and unreasonable (R. 60). The Court thereby held that it was necessary for Petitioner to comply with the provision of the purchase option requiring execution of a sales and purchase agreement, even though Respondent was willing to execute only a sales agreement which required payment of royalties under expired patents and which allowed Respondent a repurchase option to enforce the payment of royalties under the expired patents of the 1930 license agreement. Such holding conflicts with the decisions of this Court in *Scott Paper Company v. Marcalus Manufacturing Company, Inc., et al.*, 326 U.S. 249 (1945), and *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173 (1942).

In the *Marcalus* case this Court held that any attempted continuation in the patentee of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws. If owners of patents, who have equipment or products for sale to the public, can condition such sale upon the payment of royalties under expired patents or can retain control over the equipment or products for the purpose of compelling payment of such royalties, they will defeat the time limitation of the patent laws and this will be an adroit method of extending patents beyond 17 years. In the present case the lower courts

have given effect to a provision of an option which Respondent is willing to carry out only under conditions which violate the patent laws and the decisions of such courts are contrary to the Federal policy announced by this Court in the *Marcalus* case.

In the *Sola Electric Company* case, this Court held that a provision of a contract which violated a Federal statute was unenforceable and refused to give effect to such provision. Likewise, a provision of an option which the seller is willing to carry out only under terms which violate the patent laws is of no force and effect.

3. The holding of the Circuit Court of Appeals places a limitation upon the Federal Declaratory Judgment Act (U. S. C., Title 28, Sec. 400), which is not justified by the wording of the statute. The Court held that it was not concerned with the fact that the sales and purchase agreement tendered by Respondent was arbitrary, unreasonable, and contrary to the spirit and intent of the lease agreement, because this was not a suit by Respondent to recover the equipment wherein any estoppel created by its arbitrary action could be invoked (R. 60). In other words, the Court held that the question arising from Respondent's arbitrary and unreasonable action could not be determined in a declaratory judgment action but must await the bringing of a suit by Respondent to recover possession of the property.

The Circuit Court of Appeals did not question the fact that the allegations in Petitioner's complaint were sufficient to raise the issue whether Respondent was entitled to recover possession of the equipment as demanded by it. Petitioner alleged that Respondent had made demand upon it to return all of the equipment and that after tendering the sales agreement and at the same time exercising the option reserved therein to repurchase the equipment, Respondent "demanded immediate possession of all of the equipment" (R. 32). In

addition to requesting determination of its right to obtain title to the equipment, Petitioner prayed for other and further relief (R. 35). However, it was entitled to the relief to which its stated facts entitled it, even though it did not demand such relief in the prayer. Rule 54c, *Federal Rules of Civil Procedure*; *Truth Seeker Company, Inc., v. Durning*, 147 F. (2d) 54, 56 (C.C.A. 2d, 1945); *Ring v. Spina*, 148 F. (2d) 647, 653 (C.C.A. 2d, 1945); *Keiser v. Walsh*, 118 F. (2d) 13, 14 (Ct. App. D.C. 1941).

The holding in the present case conflicts with a decision of the same court in *Mississippi Power & Light Co. v. City of Jacksonville, et al.*, 116 F. (2d) 924, 925 (C.C.A. 5th, 1941), certiorari denied, 312 U.S. 698. The Court in that case held that the Federal Declaratory Judgment Act extended by its terms to all cases of actual controversy except with respect to Federal taxes, and that it should be given a liberal construction and application.

The holding in the present case conflicts with decisions of this Court in which the Court has recognized that it is proper to bring a declaratory judgment suit to determine whether a party who has violated a Federal statute can maintain suits in court which would be in furtherance of the violation. In *Mercoid Corporation v. Minneapolis Honeywell Regulator Co.*, 320 U.S. 680 (1944), the petitioner brought a suit for a declaratory judgment to determine that as the respondent had used a patent in violation of the antitrust laws, it could not maintain infringement suits against petitioner and its customers. In *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173 (1942), the defendant filed a counterclaim for a declaratory judgment alleging that a suit to recover royalties under a contract could not be maintained because the contract was in violation of the antitrust laws. Likewise it can be determined in the present declaratory judgment suit that Respondent is not entitled

to maintain a suit to recover possession of the equipment as demanded by it because such suit would be in furtherance of its attempt to extend its patents beyond 17 years which runs counter to the patent laws.

It is respectfully submitted that this Petition for Writ of Certiorari should be granted.

A handwritten signature in dark ink, appearing to read "David T. Searls", is written over a horizontal line.

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